

Pewamo-Westphalia Community Schools

Pewamo, Michigan

**Annual Financial Statement s
and
Auditors' Report**

June 30, 2006

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Pewamo-Westphalia Community Schools
Members of the Board of Education and Administration
June 30, 2006

Members of the Board of Education

Kathy Wood – President

Phil Stoddard – Vice President

Kimberly Thelen – Secretary

Ruth Schueller – Treasurer

James Hefron – Trustee

Leanne O'Brien – Trustee

Russ Snitgen - Trustee

Administration

Ron Simon – Superintendent

Michelle Sharp – High School and Junior High Principal

George Heckman – Elementary Principal



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Independent Auditors' Report

To the Board of Education
Pewamo-Westphalia Community Schools
Pewamo, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Pewamo-Westphalia Community Schools as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pewamo-Westphalia Community Schools' administration. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the administration, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pewamo-Westphalia Community Schools as of June 30, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 13, 2006, on our consideration of the Pewamo-Westphalia Community Schools' internal control over financial reporting and on our tests of its provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The administration's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of the administration regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pewamo-Westphalia Community Schools' basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Alma, Michigan
July 13, 2006

ADMINISTRATION 'S DISCUSSION AND ANALYSIS

Pewamo-Westphalia Community Schools
Administration's Discussion and Analysis
Year Ended June 30, 2006

Pewamo-Westphalia Community Schools (the District) Administration discussion and analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position and its ability to address the next and subsequent year challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2006.

The following illustrates how the financial report is presented.

MD&A

Administration's Discussion
And Analysis
(required supplementary information – new)

Basic Financial Statements

Fund
District –wide Financial Statements
(refocused)

Notes to the financial statements
(expanded / restructured)

Supplementary Information

Required supplementary information
(other than MD & A expanded)

As indicated in the illustration, GASB 34 requires the presentation of two basic types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Pewamo-Westphalia Community Schools
Administration's Discussion and Analysis
Year Ended June 30, 2006

District Wide Financial Statements

The District wide statements are new and provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two District wide statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets, combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations, regardless if they are currently available or not.

Consistent with the full accrual basis method of accounting the Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various District services.

Fund Financial Statements

The fund statements are similar to financial presentations of years past, but the new focus is on the District's Major Funds rather than fund types as in the past. The two Account Groups: General Fixed Assets and General Long Term Debt are no longer reported. Consistent with previous years, the fund statements are reported using the modified accrual method of accounting. Under this basis of accounting, revenues are recorded when received except where they are measurable and available and therefore represent resources that may be appropriated. Expenditures are accounted for in the period those goods and services are used in school programs. In addition, capital asset purchases are expensed and not recorded as an asset. Debt payments are recorded as expenditures in the current year and future debt obligations are not recorded.

Fund types include the General Fund, Special Revenue Fund, Debt Retirement Fund, Capital Project Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions and grants and other intergovernmental revenues. The Special Revenue Fund is comprised of Athletic Activities and Food Service. The Debt Fund is used to record the funding and payment of principal and interest on bonded debt. The Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.

Pewamo-Westphalia Community Schools
Administration's Discussion and Analysis
Year Ended June 30, 2006

Financial Analysis of the District as a Whole

Summary of Net Assets		
	<u>June 30, 2006</u>	<u>Restated June 30, 2005</u>
Assets		
Current Assets	\$ 2,282,214	\$ 1,923,732
Capital Assets	17,603,237	17,669,407
Less accumulated depreciation	<u>(3,837,734)</u>	<u>(3,485,621)</u>
Capital assets, net book value	<u>13,765,503</u>	<u>14,183,786</u>
 Total Assets	 <u>16,047,717</u>	 <u>16,107,518</u>
Liabilities		
Current liabilities	1,725,982	2,042,560
Long-term liabilities	<u>13,208,743</u>	<u>12,692,023</u>
 Total liabilities	 14,934,725	 14,734,583
Net Assets		
Total capital assets, net of related debt	813,912	1,207,727
Restricted	66,459	117,167
Unrestricted	<u>232,621</u>	<u>48,041</u>
 Total net assets	 <u>\$ 1,112,992</u>	 <u>\$ 1,372,935</u>

Summary of Net Assets

As indicated by the statement, total net assets as of June 30, 2006 and 2005 are \$1,112,992 and \$1,418,923, respectively. Net assets can be separated into three categories: net capital assets net of related debt, restricted assets, and unrestricted assets.

Net capital assets are a combination of funds available for capital assets, plus capital assets at original cost less accumulated depreciation and related debt. The cost of capital assets as of June 30, 2006 is \$17,603,237, which is an accumulation of capital assets year after year less any capital disposals. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less an estimated salvage value, expensed over the estimated useful life of the asset. At June 30, 2006 total accumulated depreciation totaled \$3,837,734. Most capital asset acquisitions are financed through long-term debt. Primarily, long-term debt is repaid as the debt service comes due through property taxes approved by the voters. General obligation bonds total \$10,405,000. Net assets unrestricted as of June 30, 2006 and 2005 total \$232,621 and \$48,041, respectively. The unrestricted fund balance is an accumulation of prior years' operating results. The Districts operating results directly affect this balance each year.

Pewamo-Westphalia Community Schools
Administration's Discussion and Analysis
Year Ended June 30, 2006

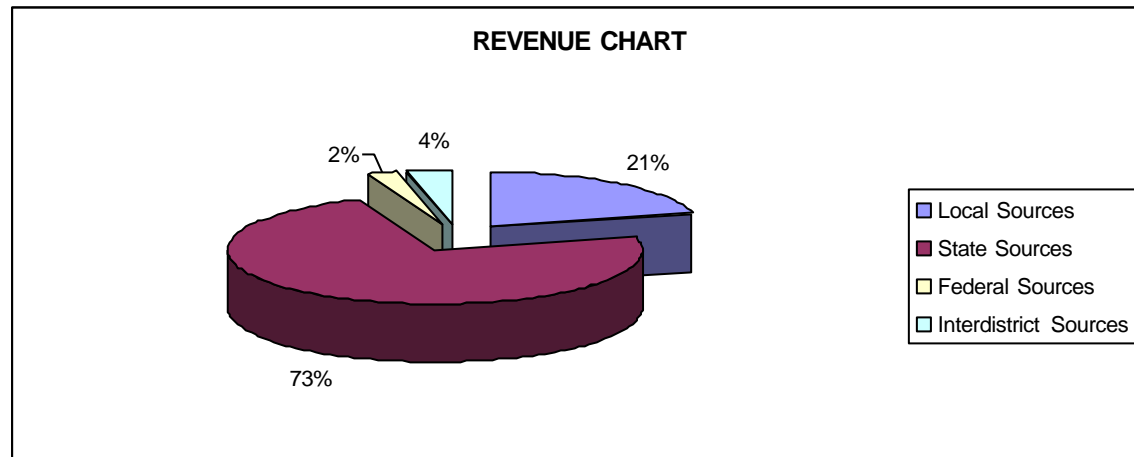
Results of Operations

	June 30, 2006	Restated June 30, 2005	Notes
Revenues			
General Revenues			
Property taxes	\$ 1,001,048	\$ 908,057	Headlee Override Millage
State of Michigan unrestricted foundation aid	4,400,843	4,377,959	
Interest and investment earnings	33,628	18,079	Interest Rates higher than last year
Gain on sale of capital assets	2,200	-	
Other general revenues	<u>32,745</u>	<u>21,080</u>	
Total general revenues	5,470,464	5,325,175	
Operating Grants			
Instruction	239,110	206,953	
Other operating grants	<u>64,604</u>	<u>12,255</u>	Increased county SPED reimbursement
Total operating grants	303,714	219,208	
Charges for services			
Instruction	225,437	207,369	
Food service	189,679	225,506	
Athletics	<u>94,122</u>	<u>91,708</u>	
Total charges for services	509,238	524,583	
Total Revenues	6,283,416	6,068,966	
Expenses			
Instruction	3,354,036	3,348,275	General inflationary increase
Supporting Services	2,269,462	2,320,535	Reduced transportation & technology costs
Food Services	248,630	224,378	Increased food supplies & L-T sub costs
Athletics	201,162	224,032	
Interest on long-term debt	<u>470,069</u>	<u>574,252</u>	
Total expenses	6,543,359	6,691,472	
Decrease in net assets	(259,943)	(622,506)	
Beginning net assets, restated	<u>1,372,935</u>	<u>1,995,441</u>	
Ending net assets	<u><u>\$ 1,112,992</u></u>	<u><u>\$ 1,372,935</u></u>	

Pewamo-Westphalia Community Schools
Administration's Discussion and Analysis
Year Ended June 30, 2006

Revenues

The following chart illustrates the District's sources of revenues by type as a percentage of total revenue. The June 30, 2006 chart includes combined revenues from all District Funds.



Sources of Revenues

Local source revenues represent 21% of total district revenues and total \$1,329,295. Local source revenues include revenues from five different funds. General Fund totaled \$278,127, Debt Service Funds totaled \$790,090, Athletic Fund totaled \$82,012, Food Service Fund totaled \$172,964 and Capital Projects totaled \$6,102.

State source revenues total \$4,571,988 and include revenues from the General Fund, Food Service Fund, and Durant Fund. General Fund, State of Michigan unrestricted foundation aid totals \$4,400,843 and General Fund, State of Michigan Operating Grants totals \$152,803. Food Service Fund State source revenues total \$14,012 and Durant Fund totaled \$4,330. In total, State source revenues represent 73% of the districts total revenue.

Federal source revenues total \$150,289 and include revenues of \$81,977 and \$68,312 from the General Fund and Food Service Fund, respectively.

Interdistrict source revenues total \$220,972 and it was all from the General Fund.

Pewamo-Westphalia Community Schools
Administration's Discussion and Analysis
Year Ended June 30, 2006

Property Taxes

Local revenue is provided from the collection of property taxes for the General Fund and Debt Service Retirement Fund and totals \$215,244 and \$785,804, respectively. In total, property tax revenue collected totals \$1,001,048 and represents 16% of total district revenues. These taxes are obtained through a voter approved 18.0000-mill levy on the taxable value of non-homestead properties for the District's operations and a voter approved 7.00-mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal payments. In June of 2004 the voters in the district approved a 3 mill Headlee Override Millage. Over the last 5 years taxable values have increased each year on average of 6.4% for homestead and non-homestead properties, combined. The following table illustrates this increase:

TAXABLE VALUE GROWTH HISTORY

YEAR	TAXABLE VALUE	GROWTH
2006	\$118,257,403	6.4%
2005	\$111,072,288	7.0%
2004	\$103,752,874	6.0%
2003	\$97,878,904	4.4%
2002	\$93,666,426	6.0%
2001	\$88,282,270	

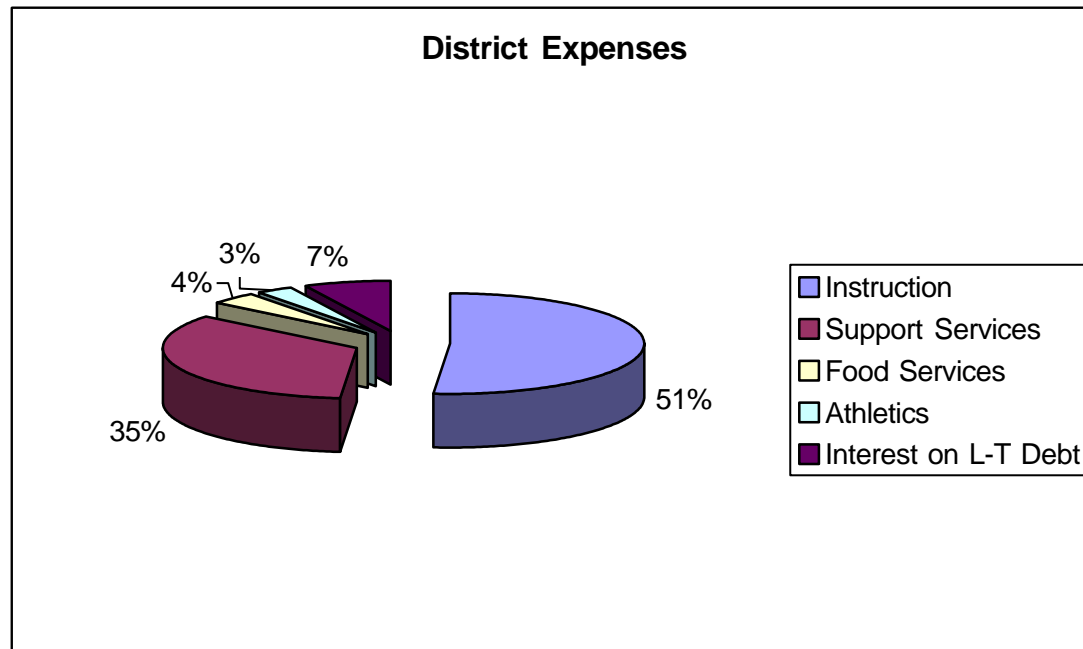
Unrestricted State Aid Foundation Allowance

A significant portion of state funding comes to the District through the foundation allowance. The State of Michigan establishes the per student foundation allowance on an annual basis. The districts foundation allowance has remained flat at \$6,898 per student for the past three years. The student enrollment is a blended enrollment number and is determined by adding the sum of 75% of the current year's fall student count to 25% of the prior year's winter student count. For this fiscal year, total blended student enrollment is 667.73. The State Aid Foundation Allowance is then determined by multiplying the blended student enrollment times the per pupil foundation amount. That amount is then reduced by the District's non-homestead tax levy based on 18.0000-mills.

Pewamo-Westphalia Community Schools
Administration's Discussion and Analysis
Year Ended June 30, 2006

Expenses

The following June 30, 2006 chart illustrates the District's expenses by activity as a percentage of total district expenses.



Total district expenses total \$6,543,359. Instruction expenses total \$3,354,036 or 51% of total district expenses. Support service expense totals \$2,269,462 or 35%, Food Service expense totals \$248,630 or 4%, Athletics expense totals \$201,162 or 3%, and Interest on L-T Debt totals \$470,069 or 7%.

Pewamo-Westphalia Community Schools
Administration's Discussion and Analysis
Year Ended June 30, 2006

Capital Assets and Debt Administration

Capital Assets

At June 30, 2006, the District had investments in Net Capital Assets totaling \$13,765,503. The following schedule discloses the total gross assets by major category:

Assets	2006	2005
Land	\$ 115,000	\$ 115,000
Buildings and additions	16,000,764	16,000,764
Site Improvements	110,066	110,066
Buses and other vehicles	507,251	584,101
Furniture and equipment	<u>870,156</u>	<u>859,476</u>
Subtotal	17,603,237	17,669,407
Less accumulated depreciation	<u>(3,837,734)</u>	<u>(3,485,621)</u>
Net Capital Assets	<u>\$13,765,503</u>	<u>\$ 14,183,786</u>

Debt

At the end of current year, the District had bonded debt outstanding totaling \$10,405,000. This represents a decrease of \$445,000 from last year.

Economic Factors and Next Year's Budgets and Rates

The Board of Education and administration consider many factors when setting the School District's 2006-07 fiscal year budget. Two of the major factors affecting the budget are the student enrollment and the State funding of the foundation grant allowance. As stated earlier in this report, the State foundation grant revenue is determined by multiplying the blended student count by the foundation grant allowance per pupil. The district's 2006-07 budget was adopted in June 2006, based on an estimated student enrollment of 672, which represents an increase of 4 students from last year. We used a \$7,273 foundation grant, which was an increase of \$200 over the foundation grant amount of \$7,073 in 2005-06 fiscal year. In 2006, the School District settled labor contracts with the teachers and the support staff that run through June 2008. Budget reductions were made in various areas both in fiscal 2006 and 2007 in anticipation of financial constraints from the local and State economy.

Pewamo-Westphalia Community Schools
Administration's Discussion and Analysis
Year Ended June 30, 2006

Original vs. Actual Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the District amends its budget twice during the school year. For fiscal year 2005-2006, the budget was amended in November 2005 and May 2006.

General fund revenues

Total revenues final budget	\$5,147,884
Total revenues original budget	<u>5,015,733</u>
	<u>\$ 132,151</u>

Change in Revenue Budget

The District's final general fund revenue budget was more than the original budget by \$132,151 , a variance of 2.57%.

Some of the significant revised budget adjustments for the year include:

- Actual blended enrollment was 10 students higher than originally projected. This increase in enrollment caused revenues to increase by \$70,730.
- County Wide Special Education Millage increased \$16,500 resulting from a successful Headlee Override Millage.
- Interest Revenue increased \$16,500 due to higher than anticipated investment rates.
- Federal Revenues decreased \$8,006 primarily due to decreased Federal Title 1 funding.
- Miscellaneous other increases and decreases in revenues accounted for the remaining difference.

General fund expenditures

Total expenditures final budget	\$5,264,035
Total expenditures original budget	<u>5,206,911</u>
	<u>\$57,124</u>

**Pewamo-Westphalia Community Schools
Administration's Discussion and Analysis
Year Ended June 30, 2005**

Increase in Expenditure Budget

As indicated on the previous page, the District's final general fund expenditure budget was greater than the original budget by 1.09%.

The significant revised budget adjustment for the year was an accrual for an expected 1% wage contract settlement for teachers and support staff.

Request for Information

This financial report is designed to provide a general overview of the Pewamo-Westphalia Community Schools finances for all those with an interest in the district's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Pewamo-Westphalia Community Schools Central Office, 5101 Clintonia Road, Pewamo, MI 48873.

BASIC FINANCIAL STATEMENTS

Pewamo-Westphalia Community Schools
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash	\$ 293,724
Accounts receivable	34,809
Due from other governmental units	828,376
Inventory	1,865
Investments	902,752
Prepaid items	6,663
Other assets	214,025
Capital assets not being depreciated	115,000
Capital assets - net of accumulated depreciation	<u>13,650,503</u>
 Total assets	 <u>16,047,717</u>

See Accompanying Notes to Financial Statements

Pewamo-Westphalia Community Schools
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	56,465
State aid anticipation note payable	1,180,000
Payroll deductions and withholdings	54,878
Accrued expenditures	141,257
Accrued salaries payable	293,382
Noncurrent liabilities	
Due within one year	369,262
Due in more than one year	<u>12,839,481</u>
Total liabilities	<u>14,934,725</u>
Net Assets	
Invested in capital assets, net of related debt	813,912
Restricted for:	
Debt service	43,655
Capital projects	22,804
Unrestricted	<u>232,621</u>
Total net assets	<u>\$ 1,112,992</u>

See Accompanying Notes to Financial Statements

Pewamo-Westphalia Community Schools
Statement of Activities
For the Year Ended June 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Governmental activities					
Instruction	\$ 3,354,036	\$ 225,437	\$ 239,110	\$ -	\$ (2,889,489)
Supporting services	2,269,462	-	-	-	(2,269,462)
Food services	248,630	189,679	64,604	-	5,653
Athletic activities	201,162	94,122	-	-	(107,040)
Interest on long-term debt	470,069	-	-	-	(470,069)
Total governmental activities	<u>\$ 6,543,359</u>	<u>\$ 509,238</u>	<u>\$ 303,714</u>	<u>\$ -</u>	<u>(5,730,407)</u>
General revenues					
Property taxes, levied for general purposes					215,244
Property taxes, levied for debt service					785,804
State aid - unrestricted					4,400,843
Interest and investment earnings					33,628
Gain on sale of capital assets					2,200
Other					<u>32,745</u>
Total general revenues					<u>5,470,464</u>
Change in net assets					(259,943)
Net assets - beginning (restated)					<u>1,372,935</u>
Net assets - ending					<u>\$ 1,112,992</u>

See Accompanying Notes to Financial Statements

Pewamo-Westphalia Community Schools
Governmental Funds
Balance Sheet
June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash	\$ 123,188	\$ 170,536	\$ 293,724
Accounts receivable	34,809	-	34,809
Due from other funds	1,810	-	1,810
Due from other governmental units	826,566	1,810	828,376
Inventory	-	1,865	1,865
Investments	879,948	22,804	902,752
Prepaid items	6,663	-	6,663
	<u>1,872,984</u>	<u>197,015</u>	<u>2,069,999</u>
Total assets	<u>\$ 1,872,984</u>	<u>\$ 197,015</u>	<u>\$ 2,069,999</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 39,875	\$ 16,590	\$ 56,465
State aid anticipation note payable	1,180,000	-	1,180,000
Due to other funds	-	1,810	1,810
Payroll deductions and withholdings	53,805	1,073	54,878
Accrued expenditures	69,531	699	70,230
Accrued salaries payable	288,581	4,801	293,382
	<u>1,631,792</u>	<u>24,973</u>	<u>1,656,765</u>
Total liabilities	<u>1,631,792</u>	<u>24,973</u>	<u>1,656,765</u>
Fund Balance			
Reserved for inventory	-	1,865	1,865
Reserved for prepaid items	6,663	-	6,663
Reserved for debt service	-	43,655	43,655
Reserved for capital projects	-	22,804	22,804
Designated for capital projects	-	49,646	49,646
Other undesignated	234,529	54,072	288,601
	<u>241,192</u>	<u>172,042</u>	<u>413,234</u>
Total fund balance	<u>241,192</u>	<u>172,042</u>	<u>413,234</u>
Total liabilities and fund balance	<u>\$ 1,872,984</u>	<u>\$ 197,015</u>	<u>\$ 2,069,999</u>

See Accompanying Notes to Financial Statements

Pewamo-Westphalia Community Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
to Net Assets of Governmental Activities
June 30, 2006

Total fund balances for governmental funds	\$ 413,234
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	115,000
Capital assets - net of accumulated depreciation	13,650,503
Other long-term assets are not deferred in the governmental funds.	214,025
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(71,027)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(66,046)
Bonds payable	(10,470,152)
School bond loan payable	(2,510,183)
Other liabilities	<u>(162,362)</u>
Net assets of governmental activities	<u>\$ 1,112,992</u>

See Accompanying Notes to Financial Statements

Pewamo-Westphalia Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local sources	\$ 278,127	\$ 1,051,168	\$ 1,329,295
State sources	4,553,646	18,342	4,571,988
Federal sources	81,977	68,312	150,289
Interdistrict sources	<u>220,972</u>	<u>-</u>	<u>220,972</u>
 Total revenues	 <u>5,134,722</u>	 <u>1,137,822</u>	 <u>6,272,544</u>
Expenditures			
Current			
Education			
Instruction	2,919,873	-	2,919,873
Supporting services	2,103,856	-	2,103,856
Food services	-	248,630	248,630
Athletic activities	-	199,365	199,365
Intergovernmental payments	81,433	-	81,433
Capital outlay	-	104,320	104,320
Debt service			
Principal	-	632,985	632,985
Interest and other expenditures	-	388,557	388,557
Bond issuance costs	<u>-</u>	<u>54,960</u>	<u>54,960</u>
 Total expenditures	 <u>5,105,162</u>	 <u>1,628,817</u>	 <u>6,733,979</u>
 Excess (deficiency) of revenues over expenditures	 <u>29,560</u>	 <u>(490,995)</u>	 <u>(461,435)</u>

See Accompanying Notes to Financial Statements

Pewamo-Westphalia Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)			
Proceeds from refinancing debt	-	4,615,435	4,615,435
Payment to bond refunding escrow agent	-	(4,560,475)	(4,560,475)
Proceeds from school bond loan fund	-	241,680	241,680
Insurance recoveries	8,672	-	8,672
Proceeds from sale of capital assets	2,200	-	2,200
Transfers in	-	164,000	164,000
Transfers out	(125,000)	(39,000)	(164,000)
	<u>(114,128)</u>	<u>421,640</u>	<u>307,512</u>
Total other financing sources (uses)			
	(84,568)	(69,355)	(153,923)
Net change in fund balance			
Fund balance - beginning	<u>325,760</u>	<u>241,397</u>	<u>567,157</u>
Fund balance - ending	<u>\$ 241,192</u>	<u>\$ 172,042</u>	<u>\$ 413,234</u>

See Accompanying Notes to Financial Statements

Pewamo-Westphalia Community Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - Total governmental funds \$ (153,923)

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of
those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(428,963)
Capital outlay	10,680

Expenses are recorded when incurred in the statement of activities.

Interest	(81,793)
Early retirement incentives payable	3,691
Compensated absences	(1,221)
Refunding issuance cost	54,960

Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute
to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does
not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces
the liability in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts
and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt issued	(4,857,115)
Repayments of long-term debt	632,985
Payment to refunded bond escrow agent	4,560,475
Amortization bond issuance costs	<u>281</u>

Change in net assets of governmental activities **\$ (259,943)**

Pewamo-Westphalia Community Schools
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2006

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash	\$ 10,000	\$ <u>154,185</u>
Liabilities		
Due to agency fund activities	<u>-</u>	<u>\$ 154,185</u>
Net Assets		
Reserved for scholarships and loans	<u>\$ 10,000</u>	

See Accompanying Notes to Financial Statements

Pewamo-Westphalia Community Schools
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2006

	<u>Private Purpose Trust Funds</u>
Additions	
Interest and investment earnings	\$ 401
Deductions	
Scholarships	<u>401</u>
Change in net assets	-
Net assets - beginning	<u>10,000</u>
Net assets - ending	<u><u>\$ 10,000</u></u>

See Accompanying Notes to Financial Statements

Pewamo-Westphalia Community Schools
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Pewamo-Westphalia Community Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted

net assets, and (3) unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough

Pewamo-Westphalia Community Schools
Notes to Financial Statements
June 30, 2006

thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include Food Service and Athletic Funds. Operating deficits generated by these activities are generally transferred from the General Fund.

Capital Projects Fund – The Building and Site Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, building, equipment, and for remodeling and repairs. The fund is

kept open until the purpose for which the fund was created has been accomplished.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards and loans and the principal and interest of the trust may be spent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property taxes and other receivable are shown net of an allowance for uncollectible amounts.

Pewamo-Westphalia Community Schools
Notes to Financial Statements
June 30, 2006

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2006, the rates are as follows per \$1,000 of assessed value.

General Fund	
Nonhomestead	18.00
Debt Service Funds	
Homestead	7.00
Nonhomestead	7.00

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 86% of the School District's tax roll lies within the Townships of Westphalia and Lyons.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the Counties of Ionia and Clinton and remitted to the School District by May 15.

Investments – Investments are stated at fair value based on a quoted market price. Certificates of deposit are stated at cost which approximates fair value.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Site improvements	10-20 years
Equipment and furniture	5-10 years
Buses and other vehicles	5-10 years

Compensated Absences – Sick days are earned by most employees at the rate of eleven days per year. A minimum of 120 sick days may be accumulated by an employee. Retiring employees who meet certain age and years of service requirements are paid for accumulated sick days to a maximum of 120 days and at a rate determined by their job category. There is no contractual provision for payment of unused vacation. They may be used for vacation only. The liability for compensated absences reported in the district-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive sick payments upon termination, are included. The amount reported is salary related and includes no fringe benefits since the amount of said benefits would be immaterial.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Pewamo-Westphalia Community Schools
Notes to Financial Statements
June 30, 2006

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data

Comparative data is not included in the School District's financial statements.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Upcoming Accounting and Reporting Change

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*. The new pronouncement provides guidance for school districts in recognizing the cost of retiree health care. The new rules will cause district-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby cancel all encumbrances. These appropriations are reestablished at the beginning of the year.

The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the Act if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Pewamo-Westphalia Community Schools
Notes to Financial Statements
June 30, 2006

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Added needs	\$ 486,411	\$ 488,463	\$ 2,052
Pupil	263,435	264,586	1,151

Compliance Bond Proceeds

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. The following is a summary of the revenue and expenditures in the 2002 Capital Project Funds from the inception of the funds through the current fiscal year:

	2002 Fund
Revenues	\$ 6,610,982
Expenditures	6,588,178

NOTE 3 - DEPOSITS AND INVESTMENTS

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 293,724	\$ 164,185	\$ 457,909
Investments	902,752	-	902,752
	<u>\$ 1,196,476</u>	<u>\$ 164,185</u>	<u>\$ 1,360,661</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 457,909
Investments in securities, mutual funds, and similar vehicles	<u>902,752</u>
Total	<u>\$ 1,360,661</u>

As of year end, the District had the following investments:

Investment	Fair Value	Rating	Rating Organization
Michigan Liquid Asset Fund	\$ 902,752	AAA	S&P

Interest rate risk – The District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase,

Pewamo-Westphalia Community Schools
Notes to Financial Statements
June 30, 2006

mutual funds, and investment pools that are composed of authorized investment vehicles. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk – The District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year end, \$444,666 of the District's bank balance of \$564,472 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's carrying value at June 30, 2006 was \$902,752.

NOTE 4 - CAPITAL ASSETS

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 115,000	\$ -	\$ -	\$ 115,000
Capital assets being depreciated				
Buildings and additions	16,000,764	-	-	16,000,764
Site improvements	110,066	-	-	110,066
Equipment and furniture	859,476	10,680	-	870,156
Buses and other vehicles	584,101	-	76,850	507,251
Total capital assets being depreciated	17,554,407	10,680	76,850	17,488,237
Less accumulated depreciation for				
Buildings and additions	2,499,694	319,015	-	2,818,709
Site improvements	2,751	5,503	-	8,254
Equipment and furniture	449,044	86,119	-	535,163
Buses and other vehicles	534,132	18,326	76,850	475,608
Total accumulated depreciation	3,485,621	428,963	76,850	3,837,734
Net capital assets being depreciated	14,068,786	(418,283)	-	13,650,503
Net capital assets	\$ 14,183,786	\$ (418,283)	\$ -	\$ 13,765,503

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	\$ 249,892
Support services	166,594
Athletic activities	12,477
Total governmental activities	\$ 428,963

Pewamo-Westphalia Community Schools
Notes to Financial Statements
June 30, 2006

NOTE 5 - INTERFUND RECEIVABLE AND PAYABLE AND TRANSFERS

Individual interfund receivable and payable balances at year end were:

<u>Due From Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
General Fund	Food Service	\$ 1,810

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers were made during the year, between the General Fund and the Athletic Fund, and the Debt Service Funds totaling \$164,000. These transfers were made to cover the costs of the School District's programs that were in excess of revenues generated from those activities.

NOTE 6 – OPERATING LEASE

The District has entered into an operating lease with MMNET for internet service. It is a one year lease, automatically renewable contingent upon funding availability. Total annual charge is \$21,420 for the period of July 1, 2005 through June 30, 2006.

NOTE 7 - STATE AID ANTICIPATION NOTE

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives

state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Balance</u>
State aid anticipation note	\$ 800,000	\$ 1,180,000	\$ 800,000	\$ 1,180,000

NOTE 8 - LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Pewamo-Westphalia Community Schools
Notes to Financial Statements
June 30, 2006

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ 10,850,000	\$ 4,585,000	\$ 5,030,000	\$ 10,405,000	\$ 355,000
Other bonds	39,393	-	2,985	36,408	14,262
School Bond Loan	2,174,736	335,447	-	2,510,183	-
Compensated absences	64,825	1,221	-	66,046	-
Retirement incentives	166,053	-	3,691	162,362	-
Premium on bonds	-	30,435	1,691	28,744	-
Deferred amount on refunding	-	(215,435)	(1,410)	(214,025)	-
Total	\$ 13,295,007	\$ 4,736,668	\$ 5,036,957	\$ 12,994,718	\$ 369,262

General obligation bonds payable at year end, consists of the following:

\$760,000 serial bond due in annual installments of \$75,000 through May 1, 2007, interest at 5.0%	\$ 75,000
\$7,135,000 serial bond due in annual installments of \$275,000 through May 1, 2007, interest at 5.0%	275,000
\$6,400,000 serial bond due in annual installments of \$250,000 through May 1, 2028, interest at 3.0% to 4.8%	5,500,000
\$4,585,000 serial bond due in annual installments of \$30,000 to \$300,000 through May 1, 2023, interest at 3.0% to 5.0%	<u>4,555,000</u>
Total general obligation bonded debt	<u>\$ 10,405,000</u>

Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2007	\$ 630,000	\$ 424,967	\$ 1,054,967
2008	550,000	399,068	949,068
2009	550,000	381,067	931,067
2010	545,000	362,442	907,442
2011	540,000	343,618	883,618
2012-2016	2,685,000	1,406,299	4,091,299
2017-2021	2,630,000	852,248	3,482,248
2022-2026	1,775,000	328,386	2,103,386
2027-2028	<u>500,000</u>	<u>36,000</u>	<u>536,000</u>
Total	<u>\$ 10,405,000</u>	<u>\$ 4,534,095</u>	<u>\$ 14,939,095</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a balance of \$43,655 to pay this debt. Future debt and interest will be payable from future tax levies.

Other bonds consist of the following:

\$61,661 Durant Refunding serial bonds due in annual installments through 5/15/2013; interest 4.76% due annually	<u>\$ 36,408</u>
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These bond obligations issued by PA 142 are payable solely from and are secured solely by an assignment by each School District of certain categorical State School Aid payments. The State Legislature has no obligation to make such appropriations. In the event the Legislature fails to appropriate funds, the School District is under no obligation for repayment of the debt obligation issued by PA 142.

Pewamo-Westphalia Community Schools
Notes to Financial Statements
June 30, 2006

Future principal and interest requirements are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2007	\$ 14,261	\$ 6,172	\$ 20,433
2008	3,276	1,054	4,330
2009	3,432	899	4,331
2010	3,595	735	4,330
2011	3,766	564	4,330
2012-2013	8,078	582	8,660
	<u>36,408</u>	<u>10,006</u>	<u>46,414</u>
Total	\$ 36,408	\$ 10,006	\$ 46,414

State School Bond Loan

The State School Bond Loan consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's bond issues. During 1997, the School District issued \$7,135,000 in bonds to renovate School District facilities. The bond election, as passed by the voters, specified that the School District debt millage would not exceed the pre-bond vote millage of 7.5 mills, but instead the election permitted the School District to extend this levy through the year 2025. Since the monies generated by the 7.5 mills are presently not sufficient to cover the entire debt service requirements of the School District, it has been necessary for the School District to borrow a total of \$2,137,413 to meet debt service requirements. Management of the School District anticipates that as the other bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements of the 1997 bonds and all necessary borrowing from the State School Bond Loan Fund. During the year, the School District borrowed \$241,680 and had an outstanding balance at year of \$ 2,510,183 , from the State School Bond Loan Fund. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

Compensated Absences

Accrued compensated absences at year end, consists of \$66,046 of accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Retirement Benefits

The School District has a termination policy for employees who have worked at the district for 10 years or more. The balance as of year end, was \$ 162,362 .

Interest expenditures for the fiscal year in the General Fund and Debt Service Funds were \$31,537 and \$388,738 , respectively .

Advance Refunding

On September 8, 2005, the School District issued general obligation bonds of \$4,585,000 (par value) with an interest rate of 3.00% to 4.00% to advance refund term bonds with an interest rate of 5.0% to 5.1% and a par value of \$ 4,400,000. The term bonds mature on May 1, 2023. The general obligation bonds were issued at a premium and after paying issuance costs of \$54,960, the net proceeds were \$ 4,615,435. The net proceeds from the issuance of the general obligation bonds were deposited with an escrow agent to provide debt service payments until the term bonds mature. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the School District's financial statements.

As a result of the advance refunding, the School District reduced its total debt service requirements by \$350,513, which resulted in an economic gain of \$271,583.

Pewamo-Westphalia Community Schools
Notes to Financial Statements
June 30, 2006

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$160,475. This amount, together with the issuance costs and underwriting fees of \$54,960, is reported in the accompanying statement of net assets as a reduction of bonds payable and is being charged to activities through fiscal year 2023.

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District participates in a public entity risk pool through the School Employers Group. With the exception of unemployment described below, this program provides substantially all the insurance needs of the School District. The possibility of additional liabilities in excess of current year contributions exists, however, since the amounts are indeterminable and believed to be immaterial, no contingent liabilities or assets have been recognized on the School District's financial statements.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had no unemployment compensation expense for the year. No provision has been made for possible future claims.

NOTE 10 - DEFINED BENEFIT PENSION PLAN

Plan Description

The School District has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees Retirement System (MPERS), which is a cost-sharing public employee retirement system (PERS).

The pension plan provides retirement, survivor and disability benefits to plan members and their beneficiaries.

MPERS operates within the Michigan Department of Management and Budget, Office of Retirement Systems who has the authority to establish and amend benefit provisions. The Michigan Department of Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or calling 800-381-5111.

Funding Policy

The School is required by State statute to contribute to MPERS an actuarially determined percentage of payroll for all participating employees. Additionally, employees participating in the Member Investment Plan contributed 3% to 4.3% of their covered wages through payroll deduction. In addition to retirement benefits, a portion of the total MPERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent information relative to MPERS funding for the three-year period beginning July 1, 2003 through June 30, 2006.

Pewamo-Westphalia Community Schools
Notes to Financial Statements
June 30, 2006

	2006	2005	2004
Funding percentage range	14.87-16.34%	12.99-14.87%	12.99%
Total payroll	3,307,033	3,366,489	3,194,275
Total covered payroll	3,216,944	3,258,045	3,110,329
School contributions	514,170	469,457	408,387
Employee MIP contributions	85,540	83,300	79,439
Portion of school contribution covering health, dental and vision benefits	44%	44%	47%

Trend Information

Ten-year historical trend information is presented in the September 30, 2005, PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. The total benefit obligations and net assets available for benefits as of September 30, 2004, the latest date for which information is available, approximates \$ 46.3 billion and \$ 38.8 billion, respectively. The School's share of the total current actuarially determined employer contribution requirement under MPSERS was less than 1% for the year ended September 30, 2005.

Post Employment Benefits

In addition to the pension benefits described above, the School District provides post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPSERS).

Expenditures for these benefits are recognized on a cash disbursement basis. During the year ended September 30, 2005, statewide expenditures of \$ 761 million were recognized for post-retirement health care, dental and vision. This represented approximately 23% of the total expenditures of the Michigan Public School Employees Retirement System.

NOTE 11 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE 12 - SUBSEQUENT EVENT

Subsequent to June 30, 2006, the School District has paid the balance of the \$1,180,000 and accrued interest on the short-term state aid anticipation note borrowed in August of 2005 and has subsequently borrowed \$1,200,000 in short-term state aid anticipation notes through the Michigan Municipal Bond Authority. Proceeds from the borrowing will be distributed to the School District August of 2006.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The June 30, 2005 financial statements did not include \$45,988 of compensated absences long term liability. This omission caused net assets to be overstated by \$45,988 and liabilities to be understated by this same amount. The net assets at July 1, 2005 were restated to correct this omission.

Net assets – beginning of year	\$ 1,418,923
Correction for compensated absences	<u>(45,988)</u>
Net assets – beginning of year (restated)	<u>\$ 1,372,935</u>

REQUIRED SUPPLEMENTAL INFORMATION

Pewamo-Westphalia Community Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Local sources	\$ 198,967	\$ 276,810	\$ 278,127	\$ 1,317
State sources	4,523,415	4,548,377	4,553,646	5,269
Federal sources	82,859	73,853	81,977	8,124
Interdistrict sources	193,492	217,972	220,972	3,000
 Total revenues	 4,998,733	 5,117,012	 5,134,722	 17,710
Expenditures				
Instruction				
Basic programs	2,359,108	2,442,008	2,431,410	(10,598)
Added needs	511,477	486,411	488,463	2,052
Supporting services				
Pupil	273,716	263,435	264,586	1,151
Instructional staff	119,905	121,585	119,156	(2,429)
General administration	216,643	212,795	205,209	(7,586)
School administration	325,942	331,271	328,839	(2,432)
Business	95,557	122,979	122,224	(755)
Operations and maintenance	577,916	600,800	597,655	(3,145)
Pupil transportation services	413,745	391,961	386,798	(5,163)
Central	90,402	80,639	79,389	(1,250)
Intergovernmental payments	92,500	85,151	81,433	(3,718)
 Total expenditures	 5,076,911	 5,139,035	 5,105,162	 (33,873)
 Excess (deficiency) of revenues over expenditures	 (78,178)	 (22,023)	 29,560	 51,583

Pewamo-Westphalia Community Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Insurance recoveries	7,000	8,672	8,672	-
Proceeds from sale of capital assets	-	2,200	2,200	-
Transfers in	10,000	20,000	-	(20,000)
Transfers out	<u>(130,000)</u>	<u>(125,000)</u>	<u>(125,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(113,000)</u>	<u>(94,128)</u>	<u>(114,128)</u>	<u>(20,000)</u>
Net change in fund balance	(191,178)	(116,151)	(84,568)	31,583
Fund balance - beginning	<u>325,760</u>	<u>325,760</u>	<u>325,760</u>	<u>-</u>
Fund balance - ending	<u>\$ 134,582</u>	<u>\$ 209,609</u>	<u>\$ 241,192</u>	<u>\$ 31,583</u>

OTHER SUPPLEMENTAL INFORMATION

Pewamo-Westphalia Community Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2006

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>				<u>Capital Projects Funds</u>		<u>Total</u>
	<u>Food Service</u>	<u>Athletics</u>	<u>1996 Issue</u>	<u>1997 Issue</u>	<u>2002 Issue</u>	<u>2005 Refunding</u>	<u>2002</u>	<u>Public Improvement Fund</u>	<u>Nonmajor Governmental Funds</u>
Assets									
Cash	\$ 23,135	\$ 54,100	\$ 11,390	\$ 18,891	\$ 13,151	\$ 223	\$ -	\$ 49,646	\$ 170,536
Due from other governmental units	1,810	-	-	-	-	-	-	-	1,810
Inventory	1,865	-	-	-	-	-	-	-	1,865
Investments	-	-	-	-	-	-	22,804	-	22,804
Total assets	\$ 26,810	\$ 54,100	\$ 11,390	\$ 18,891	\$ 13,151	\$ 223	\$ 22,804	\$ 49,646	\$ 197,015
Liabilities and Fund Balance									
Liabilities									
Accounts payable	\$ 1,676	\$ 14,914	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,590
Due to other funds	1,810	-	-	-	-	-	-	-	1,810
Payroll deductions and withholdings	1,073	-	-	-	-	-	-	-	1,073
Accrued expenditures	699	-	-	-	-	-	-	-	699
Accrued salaries payable	4,801	-	-	-	-	-	-	-	4,801
Total liabilities	10,059	14,914	-	-	-	-	-	-	24,973
Fund Balance									
Reserved for inventory	1,865	-	-	-	-	-	-	-	1,865
Reserved for debt service	-	-	11,390	18,891	13,151	223	-	-	43,655
Reserved for capital projects	-	-	-	-	-	-	22,804	-	22,804
Designated for capital projects	-	-	-	-	-	-	-	49,646	49,646
Other undesignated	14,886	39,186	-	-	-	-	-	-	54,072
Total fund balance	16,751	39,186	11,390	18,891	13,151	223	22,804	49,646	172,042
Total liabilities and fund balance	\$ 26,810	\$ 54,100	\$ 11,390	\$ 18,891	\$ 13,151	\$ 223	\$ 22,804	\$ 49,646	\$ 197,015

Pewamo-Westphalia Community Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2006

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>					<u>Capital Projects Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service</u>	<u>Athletics</u>	<u>1996 Issue</u>	<u>1997 Issue</u>	<u>2002 Issue</u>	<u>2005 Refunding</u>	<u>Durant</u>	<u>2002</u>	<u>Public Improvement Fund</u>	
Revenues										
Local sources	\$ 172,964	\$ 82,012	\$ 89,301	\$ 350,394	\$ 350,395	\$ -	\$ -	\$ 1,487	\$ 4,615	\$ 1,051,168
State sources	14,012	-	-	-	-	-	4,330	-	-	18,342
Federal sources	68,312	-	-	-	-	-	-	-	-	68,312
Total revenues	<u>255,288</u>	<u>82,012</u>	<u>89,301</u>	<u>350,394</u>	<u>350,395</u>	<u>-</u>	<u>4,330</u>	<u>1,487</u>	<u>4,615</u>	<u>1,137,822</u>
Expenditures										
Current										
Education										
Food services	248,630	-	-	-	-	-	-	-	-	248,630
Athletic activities	-	199,365	-	-	-	-	-	-	-	199,365
Capital outlay	-	-	-	-	-	-	-	66,753	37,567	104,320
Debt service	-	-	-	-	-	-	-	-	-	-
Principal	-	-	75,000	275,000	250,000	30,000	2,985	-	-	632,985
Interest and other expenditures	-	-	7,811	28,172	236,525	114,704	1,345	-	-	388,557
Bond issuance costs	-	-	-	-	-	54,960	-	-	-	54,960
Total expenditures	<u>248,630</u>	<u>199,365</u>	<u>82,811</u>	<u>303,172</u>	<u>486,525</u>	<u>199,664</u>	<u>4,330</u>	<u>66,753</u>	<u>37,567</u>	<u>1,628,817</u>
Excess (deficiency) of revenues over expenditures	<u>6,658</u>	<u>(117,353)</u>	<u>6,490</u>	<u>47,222</u>	<u>(136,130)</u>	<u>(199,664)</u>	<u>-</u>	<u>(65,266)</u>	<u>(32,952)</u>	<u>(490,995)</u>
Other Financing Sources (Uses)										
Proceeds from refinancing debt	-	-	-	-	-	4,615,435	-	-	-	4,615,435
Payment to bond refunding escrow agent	-	-	-	-	-	(4,560,475)	-	-	-	(4,560,475)
Proceeds from school bond loan fund	-	-	-	-	99,753	141,927	-	-	-	241,680
Transfers in	-	125,000	-	-	36,000	3,000	-	-	-	164,000
Transfers out	-	-	-	(39,000)	-	-	-	-	-	(39,000)
Total other financing sources (uses)	<u>-</u>	<u>125,000</u>	<u>-</u>	<u>(39,000)</u>	<u>135,753</u>	<u>199,887</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>421,640</u>
Net change in fund balance	6,658	7,647	6,490	8,222	(377)	223	-	(65,266)	(32,952)	(69,355)
Fund balance - beginning	<u>10,093</u>	<u>31,539</u>	<u>4,900</u>	<u>10,669</u>	<u>13,528</u>	<u>-</u>	<u>-</u>	<u>88,070</u>	<u>82,598</u>	<u>241,397</u>
Fund balance - ending	<u>\$ 16,751</u>	<u>\$ 39,186</u>	<u>\$ 11,390</u>	<u>\$ 18,891</u>	<u>\$ 13,151</u>	<u>\$ 223</u>	<u>\$ -</u>	<u>\$ 22,804</u>	<u>\$ 49,646</u>	<u>\$ 172,042</u>

Pewamo-Westphalia Community Schools
Other Supplemental Information
General Fund
Comparative Balance Sheet
June 30, 2006

	<u>2006</u>	<u>2005</u>
Assets		
Cash	\$ 123,188	\$ 370,595
Accounts receivable	34,809	37,746
Due from other funds	1,810	2,182
Due from other governmental units	826,566	813,876
Investments	879,948	396,048
Prepaid items	<u>6,663</u>	<u>5,804</u>
 Total assets	 <u>\$ 1,872,984</u>	 <u>\$ 1,626,251</u>
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 39,875	\$ 10,850
State aid anticipation note payable	1,180,000	800,000
Payroll deductions and withholdings	53,805	120,770
Accrued expenditures	69,531	72,862
Accrued salaries payable	<u>288,581</u>	<u>296,010</u>
 Total liabilities	 <u>1,631,792</u>	 <u>1,300,492</u>
 Fund Balance		
Reserved for prepaid items	6,663	5,804
Other undesignated	<u>234,529</u>	<u>319,955</u>
 Total fund balance	 <u>241,192</u>	 <u>325,759</u>
 Total liabilities and fund balance	 <u>\$ 1,872,984</u>	 <u>\$ 1,626,251</u>

Pewamo-Westphalia Community Schools
Other Supplemental Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	\$ 167,917	\$ 220,170	\$ 215,244	\$ (4,926)
Transportation fees	2,000	3,000	4,465	1,465
Earnings on investments	8,500	25,000	26,391	1,391
Student activities	12,000	12,640	12,640	-
Other local revenues	8,550	16,000	19,387	3,387
Total revenues from local sources	198,967	276,810	278,127	1,317
Revenues from state sources				
Grants - unrestricted	4,397,743	4,410,531	4,400,843	(9,688)
Grants - restricted	125,672	137,846	152,803	14,957
Total revenues from state sources	4,523,415	4,548,377	4,553,646	5,269
Revenues from federal sources				
Grants	82,859	73,853	81,977	8,124
Interdistrict sources				
ISD collected millage	36,492	52,992	52,553	(439)
Cooperative education	97,000	101,000	102,637	1,637
Other	60,000	63,980	65,782	1,802
Total interdistrict sources	193,492	217,972	220,972	3,000
Other financing sources				
Insurance recoveries	7,000	8,672	8,672	-
Proceeds from sale of capital assets	-	2,200	2,200	-
Transfers in	10,000	20,000	-	(20,000)
Total other financing sources	17,000	30,872	10,872	(20,000)
Total revenue and other financing sources	\$ 5,015,733	\$ 5,147,884	\$ 5,145,594	\$ (2,290)

Pewamo-Westphalia Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	\$ 665,830	\$ 683,331	\$ 682,123	\$ (1,208)
Employee benefits	289,863	288,745	286,598	(2,147)
Purchased services	7,800	5,500	4,936	(564)
Supplies and materials	21,500	19,864	19,442	(422)
Other	1,116	615	162	(453)
Total elementary	986,109	998,055	993,261	(4,794)
Basic program - middle school				
Salaries	276,545	272,025	271,922	(103)
Employee benefits	123,871	119,339	119,283	(56)
Purchased services	1,500	700	50	(650)
Supplies and materials	10,900	10,720	10,448	(272)
Other	300	200	128	(72)
Total middle school	413,116	402,984	401,831	(1,153)
Basic program - high school				
Salaries	616,896	683,165	681,585	(1,580)
Employee benefits	265,087	283,384	281,735	(1,649)
Purchased services	15,500	12,400	11,997	(403)
Supplies and materials	58,100	56,900	55,631	(1,269)
Other	4,300	5,120	5,370	250
Total high school	959,883	1,040,969	1,036,318	(4,651)

Pewamo-Westphalia Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Added needs - special education				
Salaries	199,526	196,236	194,332	(1,904)
Employee benefits	95,337	89,108	87,918	(1,190)
Purchased services	2,300	800	852	52
Supplies and materials	1,500	1,860	1,841	(19)
Other	100	100	-	(100)
Total special education	298,763	288,104	284,943	(3,161)
Added needs - compensatory education				
Salaries	80,391	78,784	78,138	(646)
Employee benefits	32,562	29,329	28,957	(372)
Purchased services	1,900	1,000	449	(551)
Supplies and materials	350	100	76	(24)
Total compensatory education	115,203	109,213	107,620	(1,593)
Added needs - career and technical education				
Salaries	62,129	54,023	54,023	-
Employee benefits	33,182	27,577	27,448	(129)
Purchased services	1,100	290	1,068	778
Supplies and materials	1,000	7,104	6,824	(280)
Other	100	100	6,537	6,437
Total career and technical education	97,511	89,094	95,900	6,806

Pewamo-Westphalia Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - guidance services				
Salaries	192,513	184,727	183,749	(978)
Employee benefits	77,603	72,663	72,522	(141)
Purchased services	2,000	4,345	6,983	2,638
Supplies and materials	1,600	1,700	1,332	(368)
Total guidance services	273,716	263,435	264,586	1,151
Instructional staff - improvement of education				
Purchased services	4,500	13,999	11,249	(2,750)
Supplies and materials	3,000	-	-	-
Other	1,000	-	-	-
Total improvement of education	8,500	13,999	11,249	(2,750)
Instructional staff - educational media services				
Salaries	64,139	63,874	64,662	788
Employee benefits	30,966	33,162	33,148	(14)
Purchased services	2,600	3,650	3,980	330
Supplies and materials	13,700	6,900	6,115	(785)
Other	-	-	2	2
Total educational media services	111,405	107,586	107,907	321

Pewamo-Westphalia Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
General administration - board of education				
Salaries	1,500	1,500	1,410	(90)
Employee benefits	115	115	108	(7)
Purchased services	19,970	22,585	22,221	(364)
Supplies and materials	6,000	4,200	4,557	357
Other	7,000	6,640	730	(5,910)
Total board of education	34,585	35,040	29,026	(6,014)
General administration - executive administration				
Salaries	110,564	111,980	111,980	-
Employee benefits	58,694	59,575	59,222	(353)
Purchased services	7,500	4,100	3,420	(680)
Supplies and materials	2,500	1,100	769	(331)
Other	2,800	1,000	792	(208)
Total executive administration	182,058	177,755	176,183	(1,572)
School administration - office of the principal				
Salaries	224,113	231,383	231,099	(284)
Employee benefits	93,529	93,439	92,010	(1,429)
Purchased services	4,200	1,600	1,355	(245)
Supplies and materials	900	770	719	(51)
Other	1,200	1,579	1,539	(40)
Total office of the principal	323,942	328,771	326,722	(2,049)

Pewamo-Westphalia Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
School administration - other				
Supplies and materials	2,000	2,500	2,117	(383)
Business - fiscal services				
Salaries	49,000	48,700	48,261	(439)
Employee benefits	26,557	26,247	26,089	(158)
Purchased services	9,000	3,645	3,467	(178)
Supplies and materials	-	350	373	23
Other	100	7,324	7,224	(100)
Total fiscal services	84,657	86,266	85,414	(852)
Business - other				
Other	10,900	36,713	36,810	97
Operations and maintenance - operating building services				
Salaries	199,977	199,735	195,595	(4,140)
Employee benefits	100,439	105,511	104,547	(964)
Purchased services	92,700	78,054	80,115	2,061
Supplies and materials	184,000	216,500	216,461	(39)
Other	800	1,000	937	(63)
Total operating building services	577,916	600,800	597,655	(3,145)

Pewamo-Westphalia Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil transportation services				
Salaries	238,597	205,020	201,262	(3,758)
Employee benefits	83,858	80,417	78,649	(1,768)
Purchased services	17,190	29,224	28,269	(955)
Supplies and materials	73,800	76,700	78,074	1,374
Other	300	600	544	(56)
Total transportation services	413,745	391,961	386,798	(5,163)
Central - support services technology				
Salaries	37,197	37,147	36,647	(500)
Employee benefits	15,655	16,266	16,138	(128)
Purchased services	32,400	24,626	24,029	(597)
Supplies and materials	5,000	2,500	2,575	75
Other	150	100	-	(100)
Total support services technology	90,402	80,639	79,389	(1,250)
Intergovernmental payments				
Payments to other public schools	92,500	85,151	81,433	(3,718)
Other financing uses				
Transfers out	130,000	125,000	125,000	-
Total expenditures and financing uses	<u>\$ 5,206,911</u>	<u>\$ 5,264,035</u>	<u>\$ 5,230,162</u>	<u>\$ (33,873)</u>

Pewamo-Westphalia Community Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2006

	Due to (From) Student Groups June 30, 2005	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2006
50/50	\$ -	\$ 6,084	\$ 6,084	\$ -
Acc Reader	-	200	141	59
Adopt-A-Family	30	-	30	-
AP Calculus	451	5,050	5,340	161
Art	-	400	-	400
B-day Treats	-	200	-	200
Band	1,868	6,904	6,442	2,330
Band Boosters	31,209	39,477	37,616	33,070
Baseball	3,244	7,300	9,319	1,225
Boys Basketball	2,187	13,085	10,702	4,570
Cheerleaders	358	20,977	21,201	134
Class of 2002	564	-	564	-
Class of 2003	710	-	-	710
Class of 2004	610	-	610	-
Class of 2005	232	-	-	232
Class of 2006	5,156	99	5,794	(539)
Class of 2007	2,712	2,976	1,705	3,983
Class of 2008	1,066	2,570	1,137	2,499
Class of 2009	384	1,885	-	2,269
Class of 2010	1,068	8,590	9,694	(36)
Class of 2011	-	3,919	-	3,919
Drama	3,478	2,112	2,589	3,001
Drivers Ed	-	20,985	19,043	1,942
Football	6,253	12,866	11,001	8,118
F.F.A.	1,105	1,118	-	2,223
Girls Basketball	2,954	15,331	17,440	845
Golf	1,360	1,244	875	1,729
High School Seminar	268	319	310	277
Jr. Cheerleading	565	-	-	565

Pewamo-Westphalia Community Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2006

	Due to (From) Student Groups June 30, 2005	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2006
Jr. High Student Council	2,172	2,756	2,219	2,709
Jr. Track	204	389	183	410
JV Baseball	339	-	-	339
KC Special Ed	153	208	51	310
Kramer Scholarship	-	477	401	76
Library	187	2,000	1,035	1,152
Meijers	-	181	-	181
Middle School Seminar	151	525	600	76
Milk Machine	1,753	940	2,433	260
National Honor Society	229	19	322	(74)
Office	8,712	3,706	9,170	3,248
Psy/Soc. Child	(4)	260	241	15
PW Beautification	-	739	739	-
Renaissance	360	-	-	360
Service Learning Grant	(630)	800	170	-
Softball	1,753	3,905	5,017	641
Student Council	3,148	9,362	9,898	2,612
Student/Staff Inc	-	1,353	1,143	210
Track	134	2,085	688	1,531
Volleyball	2,191	10,085	7,149	5,127
Weight Room	540	-	540	-
Wood Shop	1,441	4,453	3,581	2,313
Yearbook	10,588	10,430	12,308	8,710
Elementary Fund	54,715	45,500	50,122	50,093
	<u>54,715</u>	<u>45,500</u>	<u>50,122</u>	<u>50,093</u>
Total Activity Funds	<u>\$ 155,968</u>	<u>\$ 273,864</u>	<u>\$ 275,647</u>	<u>\$ 154,185</u>

Pewamo-Westphalia Community Schools
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2006

Year Ending June 30,	1996	1997	2002	2005	Durant	Total
2007	\$ 75,000	\$ 275,000	\$ 250,000	\$ 30,000	\$ 14,261	\$ 644,261
2008	-	-	250,000	300,000	3,276	553,276
2009	-	-	250,000	300,000	3,432	553,432
2010	-	-	250,000	295,000	3,595	548,595
2011	-	-	250,000	290,000	3,766	543,766
2012	-	-	250,000	290,000	3,945	543,945
2013	-	-	250,000	285,000	4,133	539,133
2014	-	-	250,000	290,000	-	540,000
2015	-	-	250,000	285,000	-	535,000
2016	-	-	250,000	285,000	-	535,000
2017	-	-	250,000	280,000	-	530,000
2018	-	-	250,000	280,000	-	530,000
2019	-	-	250,000	275,000	-	525,000
2020	-	-	250,000	275,000	-	525,000
2021	-	-	250,000	270,000	-	520,000
2022	-	-	250,000	265,000	-	515,000
2023	-	-	250,000	260,000	-	510,000
2024	-	-	250,000	-	-	250,000
2025	-	-	250,000	-	-	250,000
2026	-	-	250,000	-	-	250,000
2027	-	-	250,000	-	-	250,000
2028	-	-	250,000	-	-	250,000
Total	<u>\$ 75,000</u>	<u>\$ 275,000</u>	<u>\$ 5,500,000</u>	<u>\$ 4,555,000</u>	<u>\$ 36,408</u>	<u>\$ 10,441,408</u>
Principal payments due the first day of	May	May	May	May	May	
Interest payments due the first day of	May and November	May and November	May and November	May and November	May and November	
Interest rate	5.00%	5.00%	3.00% - 4.80%	3.00% - 5.00%	4.761353%	
Original issue	<u>\$ 760,000</u>	<u>\$ 7,135,000</u>	<u>\$ 6,400,000</u>	<u>\$ 4,585,000</u>	<u>\$ 61,661</u>	

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Members of the Board of Education
Pewamo-Westphalia Community Schools
Pewamo, Michigan

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Pewamo-Westphalia Community Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated July 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Pewamo-Westphalia Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pewamo-Westphalia Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Pewamo-Westphalia Community Schools in a separate letter dated July 13, 2006.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Alma, Michigan
July 13, 2006



7810 N. Alger Rd.
Alma, MI 48801
Phone (989) 463-6108
Fax (989) 463-8560

July 14, 2006

To the Board of Education
Pewamo-Westphalia Community Schools
Pewamo, Michigan

In planning and performing our audit of the financial statements of Pewamo-Westphalia Community Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. As a result of the aforementioned study, we became aware of the following matter that is an opportunity for strengthening internal control and operating efficiency. The following summarizes our comment and suggestion regarding this matter.

CASH DISBURSEMENTS

In performing our test of disbursements we noted three checks that were issued without proper approval by the Superintendent. It is the District's policy that all invoices are approved by the Superintendent prior to payment. We recommend that this policy is closely monitored in the future.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with Pewamo-Westphalia Community Schools' personnel, and we will be happy to discuss with you, at your convenience, any accounting or reporting issues for which you would like additional information or guidance. We are grateful for the opportunity to be of service to Pewamo-Westphalia Community Schools and would appreciate any referrals or recommendations you might have for ways that we can improve our service to you.

This report is intended solely for the information and use of the Board of Education, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Yeo & Yeo, P.C.

YEO & YEO, P.C.
CPAs and Business Consultants